

Victorian Co-operative News

Bulletin of the Co-operative Federation of Victoria Ltd

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Draft co-operatives bill released

THE long awaited co-operatives bill has been released by the Victorian Department of Justice for comment by the co-operative sector.

The bill is the result of the successful lobbying by the Co-operative Federation of Victoria for the Government to reform the current *Co-operation Act 1981*.

Most of the reforms sought by Victorian co-operatives over the past 10 years have been included in the bill.

The Federation is confident that the bill will be considered in the forthcoming Spring Session of Parliament, with the aim of the act becoming law in 1997.

To aid the consideration of the bill, the following summaries the main features of the proposed new act.

Co-operative principles

The bill contains the seven new co-operative principles recently adopted by the International Co-operative Alliance. The principles that define the structure of a co-operative are reflected in the relevant clauses in the bill.

The bill also provides that in the interpretation of the act or regulations, a construction that would promote co-operative principles is to be preferred to a construction that would not.

Types of co-operatives

The four kinds of societies in the current act will be replaced with two types; trading and non trading co-operatives.

Trading co-operatives

Trading and producers societies under the current act will become trading co-operatives under the new act. Trading co-operatives will have share capital and enhanced disclosure requirements.

Non trading co-operatives

Co-operatives registered as community advancement and community settlement societies, and rental housing co-operatives will become non trading co-operatives under the act. The bill defines a non trading co-operative as one that does not give returns or distributions on surplus or share capital to its members.

The bill recognises that community service co-operatives; child care, housing, aboriginal, broadcasting, clubs, health, education and other not-for-profit co-ops are not designed to provide economic benefits to their members.

Consequently, these co-operatives will have less onerous requirements in regard to formation and disclosure compared to trading co-operatives.

Also, non trading co-operatives may either have shares or no share capital.

New co-operatives

The minimum number of persons to form

a co-operative has been reduced to five.

A formation meeting is still required to be held, with non trading co-operatives not being required to present a disclosure statement to the founding members.

The promoters of a new trading co-operative will be required to present a disclosure statement approved by the Registrar to the formation meeting.

Legal capacity and powers

A major reform of the bill is the abolition of the doctrine of ultra vires. A co-operative will have the legal capacity of a natural person and other powers applicable to an incorporated body.

These powers have been available to companies for a number of years.

Membership

The persons who can be members of a co-operative has been expanded to include incorporated bodies. Also, a person under

Budget threat to co-ops

OVER 70 Victorian co-operatives face an uncertain future following the Federal Government's 1996 Budget.

Aboriginal and child care co-operatives may be forced to close or severely curtail services to their members as a result of the Budget.

The Aboriginal and Torres Strait Islander Commission (ATSIC) has been forced to terminate a number of programs to most of Victoria's 29 aboriginal co-operatives following a budget cut of \$470 million over 4 years.

For over 20 years, Aboriginal co-operatives throughout Victoria have

enabled indigenous people to have local control over the delivery of vital services to their communities.

One program to be axed is the Community & Youth Support Program, which provides funding for the administration of these co-operatives.

The co-operatives fear that while they may be able to operate specific programs, there will be no funds to pay the wages of their administrators and bookkeepers, and electricity, telephone and other expenses associated with running a co-operative.

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the age of eighteen years can be a member unless the rules provide otherwise.

The circumstances for cessation of membership are similar to those in current act.

Active membership

Co-operatives are formed to provide services to its members. When a person ceases to use the services of a co-operative they should also cease to be a member of that co-operative. The current act does not easily deal with this issue, which has resulted in many co-operatives having more 'inactive' members than 'active' members.

Every co-operative will be required to identify a primary activity or activities in its rules and to relate membership to its activities.

Capital

For co-operatives with share capital, new measures have been added to give greater flexibility in capital raising from their members. The nature of a share is now defined, shares can be issued at par value or at a premium, different classes of shares are permitted, and the issuing of bonus shares has been clarified.

Members will be required to take up additional shares if authorised by the rules and approved by a special resolution. Prior to the issuing of shares to members, the board of directors must give a disclosure statement to members in relation to the issue. Shares will not be able to be issued to non members.

Voting

Voting by members at general meetings reflects the principle of one member one vote. Voting by proxy is permitted if authorised by the rules. Measures have been added to restrict voting in certain circumstances.

Decisions

Alternate forms of decision making are permitted, if provided for in the rules. Postal ballots will also be permitted. Special postal ballots will be required for major decisions such as the disposal of the main undertaking of the co-operative or approving a takeover of a co-op.

The number of members required to pass a special resolution by postal ballot or at a general meeting has been reduced from a 75% to a two thirds majority. A special resolution by a special postal ballot will require a 75% majority to succeed.

General meetings

New co-operatives will be required to hold an annual general meeting within 19 months of incorporation.

Subsequent annual meetings must be held within 5 months after the close of the financial year, compared 4 months

under the current act.

Other provisions relating to quorum, the board and members convening a special general meeting and minutes are similar to the provisions in the current act.

Management

The business of a co-operative shall be managed by a board of directors. The board can also be called a committee of management. The duties and liabilities of directors, officers and employees are spelt out, and have been expanded to reflect contemporary corporate law.

Restrictions will be placed on directors receiving financial accommodation from a co-operative and selling land to a co-operative.

Management contracts involving outside bodies will require the approval of members.

There are no limits on the number of directors who are active members, with the current restriction on employee directors being repealed. Provision has been made for a limited number of non member directors.

The circumstances for the removal from and vacation of the office of a director has been expanded to include references to the Corporations Law.

Funds and property

The restrictions on the investment of surplus funds and the sale, lease and

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Budget threat to community co-operatives

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According to ATSIC Chairperson, Lois O'Donoghue, the termination of the program will effectively remove from ATSIC the responsibility for assisting indigenous organisations provide community and social services to Aboriginal people.

"The impact of this decision will be the probable termination of many hundreds of Aboriginal and Torres Strait Islander organisations and a consequent loss of valued and needed services and loss of indigenous jobs," Miss O'Donoghue said. "It is now the total responsibility of Commonwealth and State agencies to provide community services and welfare to indigenous people."

Child care

A number of Victoria's 47 community based child care co-operatives face closure following the loss of their Operational Subsidy after the Federal Budget. The subsidy helps keep the costs down for child care, particularly in low income and isolated areas.

The Government's rationale for removing the subsidy is that the measure is competitive neutral ie, the private sector runs viable services without the Operational Subsidy, therefore the community based sector has a competitive advantage over the private sector. Instead, the government will provide direct payment to families for child care.

According to the National Association of Community Based Children's Services,

the Government's decision to slash the Operational Subsidy for 1400 child centres nationally will be the death of many small parent run centres.

Child care co-operatives of 35 places and less will have difficulty finding efficiencies to cover the loss of the subsidy.

Community based child care centres has benchmarked the provision of child care in Australia since 1972. "This is the end of an era for the thousands of Australian parents who have voluntarily established and run these centres", said Ms Lynne Wannan, National Convenor of NACBCS. □

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purchase of land have been removed.

The disposal of surplus from the activities of a co-operative reflects the new co-operative principles. Provision has been made for rebates and dividends to be reinvested in the co-operative.

Fund raising from both members and non members is permitted by way of debentures and subordinated debt.

Co-operatives that currently have the power to raise money on deposit can continue the practice, but new co-operatives will not have the power to raise money in this manner.

Foreign co-operatives

The States and Territories are considering common core provisions for co-operatives wishing to operate across state borders. Victorian co-operatives wishing

to trade with interstate members will be first required to register as a foreign co-operative in that state. The same will be required of interstate co-operatives wishing to trade with their members in Victoria.

Takeovers

The bill will make it difficult for co-operatives to be taken over by a hostile company. The bill adopts the takeover measures in the NSW *Co-operatives Act 1992*, which have been successfully tested in the courts.

Comments on the bill invited

The draft co-operatives bill and executive summary are now available for comment until the end of September. The bill and summary can be obtained from the Co-operatives Unit, (03) 9627 6509 and the Federation, telephone (053) 457 466.

The Federation has organised a series of information sessions on the bill around Victoria in mid September. For details, contact Tony Gill on (053) 457 466.

Comments on the bill can be sent to either the Co-operatives Unit, PO Box 4567, Melbourne, 3001 or the Co-operative Federation of Victoria at RMB 1282, Blampied, 3364. □

Electric co-op task force formed

AN Electric Co-operative Task Force has been established to investigate how co-operatives can be involved in Victoria's restructured electricity industry.

The task force was formed following a workshop held on 31 July, attended by 23 representatives from 12 co-operatives. The workshop, jointly sponsored by the Federation and Co-operative Energy Ltd, followed the release of the Federation's discussion paper *Opportunities for Co-operatives in Electricity Industry Restructuring*.

The paper identified that small electricity consumers; farmers, small business, community organisations and the public,

will not gain the benefits from competition in the industry unless they aggregate their purchasing power. The paper concluded that co-operatives were the best vehicle to achieve aggregation for the benefit of consumers.

The workshop heard that there are electric co-operatives in over 50 countries, including the United States, and that power suppliers prefer dealing with co-operatives because they are reliable and honest, and they have the ability to deliver a composite load profile that will enable savings to be made.

For further information contact Tony Gill on (053) 457 466. □

Co-ops lose tax deduction

TAX deductions allowable to a co-operative company for the repayment of government loans will be repealed following the 1996 Federal Budget.

The Federal Government has decided to repeal paragraph 120(1)(c) of the *Income Tax Assessment Act 1936* with application to government loans to marketing co-operatives entered into after 7.30 pm EST on 20 August 1996, and to existing loans only where their terms are altered after this time.

According to the Budget papers, paragraph 120(1)(c) allows eligible co-operatives double deductions for the cost

of relevant assets. The net effect is that if the asset and the loan come through government, a marketing co-operative can claim an effective 200% tax deduction for capital expenditure.

The Budget papers state the repeal of paragraph 120(1)(c) is consistent with competitive neutrality principles and the Government's policy of removing anomalies from the tax system, as there is evidence that the provision is being exploited by some government-owned financial institutions to gain a commercial advantage over private sector lenders. □

Co-operative Federation of Victoria Ltd
Annual General Meeting
Thursday 17 October
commencing at 5.30 pm
at
RACV Club,
123 Queen Street, Melbourne
followed by the
Annual Dinner
Speaker
The Hon. Chris Strong MLC
Chairman
Victorian Parliament Economic Development Committee
from 7.00 pm

**Reinventing
the
Co-operative**
by Edgar Parnell
Director, Plunkett Foundation
**Enterprises for the
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an essential guide for the
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Reinventing - What and Why ~ Focusing the
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~ Rethinking the Basics ~ The Process of
Change ~ Members in Control ~ Directing
~ Managing ~ Financing ~ Corporate
Governance ~ Public Policy ~ Repositioning
~ Developing new Co-ops
**\$36 - members, \$40 - others, plus
postage**

News in brief

New members

The Board of Directors welcomes the following new members of the Federation:

Down To Earth (Victoria) Co-operative Ltd
Rupnorth Co-operative Ltd

Support for Tree Co-ops

Australian Forest Growers, the national association of private commercial forestry and farm tree growers, has received funding from the Commonwealth's Farm Forestry Program to promote treegrowers' co-operatives.

The aim of the Program is to promote commercial wood production on cleared agricultural land to provide an additional wood resource for industry.

AFG will produce and promote a 'starter kit' on the establishment and operation of treegrowers' marketing co-operatives.

The starter kit project will address one of the most commonly raised needs for the further development of farm forestry; the need for small timber growers to form regional co-operatives to strengthen their position in the wood markets.

1996 Key Issues Conference

The fourth annual Key Issues Conference will be at the Sydney Hilton on 24 - 25 October, 1996.

The theme of the Conference is

"Reinventing Co-operatives THE NEXT GENERATION"

Four topics serve to focus the Conference theme

- Co-operative Image, Profile and Reality
- Democracy, Inclusiveness and Corporate Governance
- Innovation and Identity
- Strategies for Global Success

The Conference format will include opening and closing plenary sessions and three concurrent streams: Agricultural/Commercial and Trading Co-operatives; A to Z of Co-operatives in Communities; and Co-operative Solutions for Employment Creation/Enterprise Development.

Victorian Co-operative News

Opinions expressed in the Victorian Co-operative News do not necessarily reflect those of the Co-operative Federation of Victoria Ltd.

Produced for the Co-operative Federation of Victoria Ltd by Tony Gill, Langs Road, Blampied, Victoria.

Printed by Ballarat Community Education Centre Co-op.

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Your Federation at Work

Edgar Parnell in Melbourne

In April, the Co-operative Federation of Victoria and the Asia Pacific Co-operative Training Centre jointly sponsored a workshop on *Developing Best Practice for Agricultural Co-operatives*, lead by Edgar Parnell, director of the Plunkett Foundation.

The workshop was attended by 20 co-operators from seven leading Victorian agricultural co-operatives.

Drawing on his recent publication, *Reinventing the Co-operative*, Mr Parnell focused on the practical ways in which agricultural co-operatives can become more commercially effective and deliver better services to their members.

Image of co-operatives

At a recent meeting of the Co-operatives Council of Australia, the Federation offered to prepare a proposal for a national campaign to increase the public profile and political influence of co-operatives, credit unions, friendly societies and

other mutual organisations.

Comments on co-ops bill

In July, the Minister for Fair Trading, the Hon. Jan Wade, released an exposure draft of the new Victorian co-operatives act to the Federation, state governments and other state federations for comment prior to the release of a draft bill to the remainder of the co-operative sector.

The Federation prepared a detailed submission for the Office of Fair Trading recommending a number of improvements to the bill.

Electric co-ops workshop

On 31 July, the Federation jointly sponsored a workshop on opportunities for co-operatives in the electricity industry with Co-operative Energy Ltd. (see page 3 for details).

National Co-op Update

The Federation has negotiated a special discounted rate for members to subscribe to the *National Co-op Update*. A year's subscription to the bi monthly news magazine is \$40 for

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Review of Member Services

The Board of the Federation is undertaking a review of member services. Members are invited to comment on the relevance of the Federation's current services and to make suggestions of other services that may assist in improving the performance of member co-operatives.

Please contact Tony Gill, Secretary of the Federation, on (053) 457 466 with your ideas.

Advertising Policy

Victorian Co-operative News

Members of the Federation will get free advertising. Non members shall pay at a rate determined from time to time.

In the event of the number or size of advertisements exceeding space available, precedence will be given to members advertisements.

The editor will have the discretion on the size of advertisements, taking into account editorial space.

For advertising enquires, call (053) 457 466